

USPS-R2012-3/3

Periodicals Cap Compliance

PREFACE

A. Overview of the Workpapers

USPS-R2012-3/3 contains the workpapers demonstrating that the percentage change in Periodicals prices complies with the Annual Limitation Authority. This preface is accompanied by an Excel file, CAPCALC-PER-R2012.xls, which documents both data sources and calculations for Periodicals price cap compliance. Because of the timing of this filing, hybrid year billing determinants are used throughout. These billing determinants cover the following periods: Q4 FY 2010 and Q1 through Q3 FY 2011. **The minor revisions of November 8, 2011 are described at the end of this Preface.**

In the Excel file, after the cover page and index, the next three tabs are: **Regular Rate BD**, **Nonprofit BD**, and **Classroom BD**. These three sheets provide the billing determinants for all of Outside County Periodicals including Science of Agriculture (SOA). Note that SOA volume is combined with Regular Rate volume except for the advertising pound volume rate cells in the Delivery Unit (DDU), Sectional Center Facility (SCF), Area Distribution Center (ADC), and Zones 1 and 2 entries. These SOA rate cells receive preferential treatment under the statute. There is one adjustment that was made to the billing determinants data ("preferred rate discount"), which is discussed below in section B. This adjustment relates to the recalculation of preferred rate discounts affecting both the Nonprofit and Classroom billing determinants.

The **Outside County** tab calculates the postage using the current prices as well as the new prices. The Limited Circulation discount dollar amount cannot be calculated for the adjusted prices because the billing determinants for these pieces are not available. Since this discount applies to the same rate cells as the preferred rate discount, the percent change in the calculated "preferred rate discount" dollar amount is used to calculate the Limited Circulation discount dollar amount for the adjusted prices. See section B.

The **Within County** tab - Determining Within County revenue is straightforward. The hybrid year billing determinants are used to calculate the postage revenue for cap compliance.

The **Passthroughs-OC Pcs** tab provides in a summary form the presort and automation passthroughs (discounts divided by avoided costs) for Outside County piece rates.

The **Price % of Cost-Bundle Contrib** tab provides the percentage of costs that are recognized in the various bundle, sack, and pallet prices.

The **Passthroughs Within County** tab provides the presort, automation, and dropship passthroughs for Within County pieces.

B. Adjustment to the Billing Determinants

One minor adjustment was needed to make the billing determinants useful for calculating Periodicals revenue and complying with the Annual Limitation Authority rules. The “preferred rate discount” adjustment is made in row 130 of both the Nonprofit BD and Classroom BD tabs, respectively.

The dollar amount for the preferred rate discount was recalculated for both the Nonprofit and Classroom portions of Outside County Periodicals. The dollar amount calculated as a part of the billing determinants is partially based on Docket No. R2006-1 rates. Since the base revenue calculation applies the current rates to the annual volume, it is reasonable to re-estimate this dollar amount using the current rates and the annual volume provided in the billing determinants.

C. The Revenue Calculations

The last tab, **Summary**, shows the revenue under current and new rates, along with the overall percentage change of 2.133% for the Periodicals mail class.

The calculations assume no migration to the new Mixed Area Distribution Center (MADC) pallet price. Although the Postal Service recognizes that pricing relationships can move mail volumes to more (or less) efficient preparation, no data are available at this point to quantify the impact of the new offering. In any event, net revenue leakage would have lowered the overall percentage change, so assuming no migration is a conservative approach with respect to not exceeding the price cap.

The **Summary** also details Periodicals banked authority resulting from the filing, citing Attachment C of this rate notice for the New CPI Authority (cell F18), and presenting new CPI Authority Used (cell F19), Unused New Authority (cell F20), Banked Authority (cell F22), Banked Authority Used (cell F23), Unused Banked Authority (cell F24), and, finally, New Banked Authority (cell F26).

REVISIONS OF NOVEMBER 8, 2011

The Periodicals passthroughs, costs, and price/cost ratios filed on October 18, 2011 in Attachment B are correct. However, although the Periodicals passthroughs and price/cost ratios shown in the CAPCALC file matched the

Annual Compliance Determination (ACD) figures as the ACD was initially filed on March 29, 2011, they did not reflect all of the Commission's errata subsequently filed on April 8, 2011. The figures, updated to reflect these errata, are as follows, and do not materially change the passthroughs or price/cost ratios. An explanation of each change follows:

- (a) The avoided cost of \$0.153, as originally shown in tab "Passthroughs OC – Pcs" cell F11, was changed to \$0.152. This adjustment was made and results in a passthrough of 70.4% rather than 69.9%.
- (b) The avoided cost of \$0.220, as originally shown in tab "Passthroughs OC – Pcs" cell F21, was changed to \$0.221. This adjustment was made and results in a passthrough of 54.3% rather than 54.5%.
- (c) The bottom-up cost of \$0.640, as originally shown in tab "Price % of Cost-Bundle Contrib" cell D9, was changed to \$0.641. This adjustment does not change the displayed passthrough of 43.1%.
- (d) The bottom-up cost of \$0.689, as originally shown in tab "Price % of Cost-Bundle Contrib" cell D10, was changed to \$0.688. This adjustment does not change the displayed passthrough of 41.1%.
- (e) The bottom-up cost of \$2.65, as originally shown in "Price % of Cost-Bundle Contrib" cell D33, was changed to \$2.66. This adjustment results in a passthrough of 16.4% rather than 16.5%.

For clarity, a revised CAPCALC-PER-R2012.xls file is included in the revisions of November 8, 2011, with the appropriate cells highlighted, although the price cap calculations themselves do not change as a result of the minor adjustments specified in (a) through (e) above.